

# EXHIBIT 18

To: Stephanie Ruhle[sruhle2@bloomberg.net]  
From: KP13  
Sent: Mon 1/11/2016 3:22:49 PM (UTC-05:00)  
Subject: FW: UA US: Under Armour Inc - Warm weather and market share concerns creating better entry point in UA shares - BUY - United States

And here comes the cavalry....

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**From:** BofAML-Robert Ohmes [mailto:feedback@mlresearch.ml.com]  
**Sent:** Monday, January 11, 2016 2:50 PM  
**To:** Shaw, Tom  
**Subject:** UA US: Under Armour Inc - Warm weather and market share concerns creating better entry point in UA shares - BUY - United States

Global Research

Bank of America  
Merrill Lynch 

Under Armour Inc

## **Warm weather and market share concerns creating better entry point in UA shares**

Reiterate Rating: BUY

PO: 108.00 USD | Price: 69.03 USD

Equity | 11 January 2016

### **Key takeaways**

- Warm weather in 4Q15 could create EPS risk, but we believe concerns are overblown and Under Armour has many offsets.

- We believe Under Armour's footwear momentum remains very strong and average selling price concerns are also overblown.
- Following Outdoor Retailer, we believe the product launch outlook for Under Armour is better y/y.

**FULL REPORT**



## **Warm weather creates 4Q risk, but concerns overblown**

UA is expected to report 4Q15 EPS on Jan. 28 and given UA's exposure to the cold weather category (particularly thru UA's "Cold Gear" compression and "Base Layer" businesses) there could be some risk to our and consensus 4Q estimate of \$0.47. However, downside should be minimized by likely initial conservative UA plans and guidance for 4Q, more diversity of UA apparel offerings vs. LY, strong footwear (led by Steph Curry 2 shoe), and International growth continuing. In addition, UA's outlet business and partnership with TJX should enable UA to manage excess cold weather inventory well, particularly since Under Armour appeared less promotional than other brands in our store checks in December (most of UA section was full price at Dick's Sporting Goods and Sports Authority, but big logo hoodies still 25% off).

## **Market share and ASP concerns also appear overblown**

We believe market share and average selling price concerns pressuring UA shares are overblown for several reasons: (1) UA does not have a mid-tier channel focus given how early the company is in its growth, so Nike's success in the mid-tier Dept. store channel (particularly at KSS) is likely overstating the appearance of market share loss as KSS began participating in Sportscan in 2H15; (2) Nike has a much smaller presence in Outerwear, which would also make outdoor brands/UA appear to be losing share over the abnormally warm weather period just experienced; (3) in footwear, UA's average selling prices have come down since 2013 (when UA did less than \$300MM in footwear sales)- but that reflects a broadening of UA's footwear business away from high price point cleated footwear into \$70-80 running and basketball sneakers as well as strong growth in kid's footwear - which also is lower average priced vs. adult footwear. We do not view this as a concern as UA footwear continues to grow 100%+ off of a low base in Sportscan and the UA strategy continues to reflect increasing offerings of higher price point running and basketball styles as well as new high price point offerings in outdoor (including "Fat Tire").

## **2016 should be a strong revenue year for UA**

We see upside to UA's previous preliminary 2016 guidance for revenue growth of 25% and operating income growth of 23%, as we see revenue strength to be driven by: (1) continued low-20% growth rate in apparel supported by broader department store offerings (Macy's) and new product launches (including Reactor); (2)

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direct-to-consumer growth driven by UA outlets, same store sales growth, e-commerce, and flagship specialty store openings; (3) 40%+ growth in footwear with potential upside as UA increases penetration in mall accounts (led by Steph Curry basketball, SpeedForm and other new UA footwear platforms - including Fat Tire); & (4) International growth as we believe UA is in the early stages of aggressive International expansion, driven by an outlook for China to reach \$150MM in sales in 2016 (from roughly \$70MM in 2015) led by franchise store openings in addition to growth in Europe (now over \$130MM) - UK/Germany/France (supported by new e-commerce launches).

## Outdoor Retailer: UA 2016 product outlook better vs. LY

Following the Outdoor Retailer tradeshow last week, we believe Under Armour's apparel product pipeline is stronger compared to last year driven by the launch of a new synthetic insulation, Reactor. Reactor will be a UA's largest outerwear technology launch since Coldgear Infrared (two years ago - now in 70% of products). Reactor will launch with 26 styles across all channels that will add transitional outerwear and lifestyle product to Under Armour's offering. Under Armour is also seeing strong momentum in its outdoor footwear and we expect more styles of the Fat Tire (strong launch in 2015) and launch of the Speedfit boot to support ongoing growth in that category.

**Robert F. Ohmes, CFA** 

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This report is intended for Tom Shaw



Read the research report for complete information including important disclosures and analyst certification(s).

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